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Columbus Building
7 Westferry Circus
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27 November 2018

Re: Australian response to concerns and implementation challenges raised in IASB October 2018 Agenda ref 2D

Dear Andrea,

We understand that the IASB expects to consider the merits of potential amendments to IFRS 17 in respect of the concerns and implementation challenges raised in IASB October Board Agenda ref 2D. As discussed between Kris Peach (Chair of the Australian Accounting Standards Board (AASB)) and Sue Lloyd, to support the IASB in their upcoming deliberations, we consider that it will be helpful to provide an Australian perspective on the concerns and implementation challenges raised given the similarities between IFRS 17 and the Australian accounting standards that are currently applicable to insurance contracts.

The Australian Transition Resource Group (AASB TRG) was set up by the AASB to support the Australian insurance industry through the implementation of IFRS 17. The AASB TRG includes representation from life, general and health insurers (and reinsurers), large accounting firms as well as regulatory and industry bodies. Our responses and recommendations (attached to this letter) reflect our experience of applying similar principles to those in IFRS 17 when accounting for insurance contracts across life, general and health insurance. We hope that they will help to provide clarity around how the concerns raised may be addressed in a way that is both pragmatic and meets the criteria determined by the IASB in its October Board meeting on the 24th of October 2018.

We welcome the opportunity to discuss our recommendations and work with the IASB staff to achieve appropriate solutions to address the concerns raised.

Yours sincerely,

Anne Driver
Chair AASB TRG

Cc: Darrel Scott, Sue Lloyd, Ann Tarca, Kris Peach, James Barden

Australian response to IASB October 2018 Board Agenda ref 2D

Insurance Contracts | Concerns and implementation challenges

BACKGROUND

At its October 2018 meeting, the IASB Board (the Board) discussed concerns and implementation challenges that have been raised by stakeholders on the requirements of IFRS 17[1]. The Board stated that it would consider at a future meeting whether any concerns and implementation challenges indicate a need for standard-setting to amend the requirements of IFRS 17 beyond the annual improvements proposed in June 2018[2]. The Board agreed on the criteria it will use in evaluating potential changes to IFRS 17[3], namely that:

a) amendments would not result in significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements—i.e. any amendments would avoid:
   i. reducing the relevance and faithful representation of information;
   ii. causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
   iii. increasing complexity for users of financial statements, thus reducing understandability.

b) amendments would not unduly disrupt implementation processes that are already under way or risk undue delays in the effective date.

The Board additionally noted that they would like to preserve the core principles of IFRS 17 and any amendments should be narrow in scope. No decisions were made on whether amendments should be made. The IASB will discuss the issues in more detail at future IASB meetings.

PURPOSE OF THIS PAPER

The purpose of this paper is to present an Australian response to the concerns and implementation challenges raised in Agenda Paper 2D of the IASB October 2018 Board meeting.

We have set out below a summary of the responses to each topic as well as whether we agree with the IASB staff's preliminary assessment of the proposed changes against the criteria set out in Agenda Paper 2C of the IASB October 2018 Board meeting. We note that Topics 12 (Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous) and 15 (Separate presentation of groups of assets and groups of liabilities) represent the highest priority issues for the Australian industry and we would strongly support a change to address these issues. Below we have categorised the priority of the resolutions to the Australian market as per the following colouring system:

Strongly support change   Outcome not a priority for Australia   Strongly disagree with change

Topic	Australian response		Agree with IASB staff preliminary assessment?
1—Scope of IFRS 17 | Loans and other forms of credit that transfer insurance risk	Support a change	Change	Yes
2—Level of aggregation of insurance contracts	Agree that no change is required – subject to addressing the concerns in Topic 15	No change	Yes
3—Measurement | Acquisition cash flows for renewals outside the contract boundary	Support a change but not considered one of the top two issues in Australia	**Change**	Yes
4—Measurement | Use of locked-in discount rates to adjust the contractual service margin	Support a change	Change	No
5—Measurement | Subjectivity | Discount rates and risk adjustment	Agree that no change is required	No change	Yes
6—Measurement | Risk adjustment in a group of entities	Agree that no change is required	**No change**	Yes
7—Measurement | Contractual service margin: coverage units in the general model	Support a change	Change	Yes
8—Measurement | Contractual service margin: limited applicability of risk mitigation exception	Not expected to have a significant impact in Australia	N/A	N/A
9—Measurement | Premium allocation approach: premiums received	Implementation challenges will be mitigated if Topic 15 is addressed	No change	No
10—Measurement | Business combinations: classification of contracts	Agree that no change is required	**No change**	Yes

[1] IASB October 2018 Board Agenda Paper 2D (https://www.ifrs.org/-/media/feature/meetings/2018/october/iasb/ap02d-ifrs17.pdf)

[2] https://www.ifrs.org/news-and-events/updates/iasb-updates/june-2018/#6/

[3] IASB October 2018 Board Agenda Paper 2C (https://www.ifrs.org/-/media/feature/meetings/2018/october/iasb/ap02c-ifrs17.pdf)

11—Measurement | Business combinations: contracts acquired during the settlement period	Support a change but not considered one of the top two issues in Australia	**Change**	**No**
12—Measurement | Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous	Support a change. One of the top two issues identified in Australia	**Change**	Yes
13—Measurement | Reinsurance contracts held: ineligibility for the variable fee approach	Not expected to have a significant impact in Australia	N/A	N/A
14—Measurement | Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued	Support a change but not considered one of the top two issues in Australia	**Change**[4]	**No**[4]
15—Presentation in the statement of financial position | Separate presentation of groups of assets and groups of liabilities	Support a change. One of the top two issues identified in Australia	**Change**	Yes
16—Presentation in the statement of financial position | Premiums receivable	Implementation challenges will be mitigated if Topic 15 is addressed	No change	N/A
17—Presentation in the statement(s) of financial performance | OCI option for insurance finance income or expenses	Agree that no change is required. This would disrupt implementation projects significantly	**No change**	Yes
18—Defined terms | Insurance contract with direct participation features	Not expected to have a significant impact in Australia	N/A	N/A
19—Interim financial statements | Treatment of accounting estimates	Agree that no change is required in respect of the concern raised in AP2D[5].	**No change**	**Yes**[5]
20—Effective date | Date of initial application of IFRS 17	N/A – tentative decision made in the November Board meeting to defer	N/A	N/A
21—Effective date | Comparative information	Agree that no change is required	No change	Yes
22—Effective date | Temporary exemption from applying IFRS 9	N/A – tentative decision made in the November Board meeting to defer	N/A	N/A
23—Transition | Optionality	Agree that no change is required	No change	Yes
24—Transition | Modified retrospective approach: further modifications	Support a change	Change	Yes
25—Transition | Fair value approach: OCI on related financial assets	Agree that no change is required	No change	Yes

DETAILED RESPONSES

Topic 1: Scope of IFRS 17 | Loans and other forms of credit that transfer insurance risk

Australian response	Whilst our view is that this issue is better addressed through a principles-based approach which would also exclude investment contracts which have a relatively small insurance component from the scope of IFRS 17, at this stage of the process we support the more specific carve out suggested by the IASB staff. Therefore, we support a change to exclude from the scope of IFRS 17 contracts that have as their primary purpose the provision of loans or other forms of credit. We agree with the IASB staff's preliminary view that such an amendment would meet the criteria set out in IASB October 2018 Board paper 2C.

Topic 2: Level of aggregation of insurance contracts

Australian response	We consider that the group as the level of aggregation is an acceptable approach for the identification and measurement of onerous contracts, but we do not believe that this approach should be extended to other aspects such as presentation on the statement of financial position - refer to Topic 15 below.

Topic 3: Measurement | Acquisition cash flows for renewals outside the contract boundary

Australian response	We support a change to allow an entity to allocate directly attributable insurance acquisition cash flows to the contracts to which they relate as well as expected renewals of those contracts where those insurance acquisition cash flows are expected to be recovered through renewals and this reflects the entity's business model. We agree with the IASB staff's preliminary view that such an amendment would meet the criteria set out in IASB October 2018 Board paper 2C.

[4] This is a high priority issue for a smaller group of insurers in Australia who have long term reinsurance contracts covering short term underlying insurance contracts.

[5] However, we consider that the IAS 34 override in IFRS 17 should be permitted but not required.

Topic 4: Measurement | Use of locked-in discount rates to adjust the contractual service margin

Australian response	Australian stakeholders have consistently promoted the mandatory use of current discount rates to be applied throughout the insurance standard, including the CSM and we still hold to this view.
Justification for change	Please refer to assessment against criteria below.
Proposed solution	We have a preference for requiring current discount rates throughout IFRS 17. However, in order to address criteria (b) in AP2C, an option to use either current rates or locked-in rates seems reasonable in light of the logic the IASB used for having the option to present the impact of discount rate changes in profit or loss or OCI [IFRS 17.BC119]. The two matters are linked because a profit and loss presentation and current discount rate for the CSM are both complementary with measuring assets at FVPL and an OCI presentation and locked-in discount for the CSM are both complementary with measuring assets at amortised cost.
Assessment of proposed solution/change against criteria set by IASB	*Criteria (a)(ii)*: AP2D.52 contends that making a CSM adjustment at the current rate would mean that the CSM would comprise amounts measured at different rates and would have no internal consistency. However, we consider the opposite is true because the IASB view is inconsistent with the measurement of the liability for remaining coverage being a current estimate. In addition, there is nothing arbitrary (AP2D.57) about changes in discount rates affecting revenue – this is the product of using a current value measure (for example, in measuring and remeasuring provisions under IAS 37). Furthermore, freezing the discount rate in respect of CSM is both inconsistent with adjusting the CSM for updated cash flows and, creates an inconsistency within IFRS 17's general measurement model because a current rate is used for contracts with direct participation features. *Criteria (b)*: AP2D.59 purports that changing to a current rate now could unduly disrupt implementation processes – however, introducing an option to use either a current or locked-in rate would not have that effect. *Other*: Disclosure (identified in AP2D.58) should not be relied upon to resolve a recognition and measurement problem.

Topic 5: Measurement | Subjectivity | Discount rates and risk adjustment

Australian response	This is not considered to be an issue in Australia.
Justification for no change	We agree with the IASB staff's view that a principles-based approach for determining discount rates and measuring the risk adjustment for non-financial risk is appropriate.

Topic 6: Measurement | Risk adjustment in a group of entities

Australian response	We support no change to the wording of, or guidance to, measuring risk adjustments.
Justification for no change	We refer to our submission to the IASB September TRG (S81 of AP11) and consider that flexibility should be maintained to allow the implementation of risk adjustment principles in a practical and pragmatic way. We also note that at a Group level, risk adjustments will be calculated in a consistent manner which will allow for global Groups to articulate their view of risk in a way that makes them comparable to peers. We agree with the IASB staff view that any change or clarification to redefine or restrict how risk adjustments are determined could unduly disrupt implementation processes for many entities who have already commenced their implementation.

Topic 7: Measurement | Contractual service margin: coverage units in the general model

Australian response	This issue is expected to have limited impact in Australia, however we support an amendment to IFRS 17 to address this concern.
Justification for change	We agree that unintended consequences may arise if investment related services are not considered as part of the coverage units for some contracts expected to be measured under the general model.
Proposed solution	Apply similar principles as applied to direct participating contracts to include allowance for investment related services in the coverage unit for contracts accounted for under the general model where they have a material investment component.

Topic 8: Measurement | Contractual service margin: limited applicability of risk mitigation exception

Australian response	This issue is not expected to have a significant impact in Australia.

Topic 9: Measurement | Premium allocation approach: premiums received

Australian response	We would strongly support an amendment to IFRS 17 to address this concern. However, we note this proposed approach introduces a risk of potential different calculations of the liability for remaining coverage between the general model and PAA unless both are amended in the same way. As this issue is completely related to the issue around the separate presentation of groups of assets and liabilities in the statement of financial position (Topic 15), we consider that the implementation challenges arising from this issue will be significantly mitigated if the concerns in Topic 15 are addressed.
Justification for change	The requirement to identify premium received by group of insurance contracts presents significant practical challenges for general insurers and materially increases the cost of IFRS 17 implementation for no discernible benefit. Whilst 'premium received' can also be determined by identifying the unearned premium and deducting premiums receivable, this information is also unobtainable from most current insurance systems at the level of the 'group'.
Proposed solution	Refer to Topic 15 below.

Topic 10: Measurement | Business combinations: classification of contracts

Australian response	We support the IASB staff's view that no amendment should be made.
Justification for no change	The current classification of acquired insurance contracts based on the terms and conditions at the acquisition date would avoid operational complexity.

Topic 11: Measurement | Business combinations: contracts acquired during the settlement period

Australian response	We would support an amendment to apply similar principles to those in AP1 of the September 2018 IASB TRG to determine whether contracts acquired (in a business combination or transfer of insurance contracts) during their claims settlement period should be accounted for as claims incurred, or remaining coverage based on the business model of the acquirer[6]
Justification for change	• The current requirements will result in a significant grossing up of revenue across the insurance industry because revenue would be recognised twice for the same group of contracts – first by the insurer who issued the contracts and subsequently, by the acquirer of the group of contracts as the claims are settled. • Accounting and reporting under the current IFRS 17 requirements will be more complex to users to understand and preparers to explain because similar contracts will be accounted for differently based on whether they have been issued or acquired by the entity[7]. • The current approach poses significant operational challenges for contracts acquired in their settlement periods.
Proposed solution	Apply similar principles to those in AP1 of the September 2018 IASB TRG to determine whether contracts acquired (in a business combination or transfer of insurance contracts) during their claims settlement period should be accounted for as claims incurred, or remaining coverage.

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[6] E.g. For entities with a business model to acquire and manage run-off portfolios, it may be appropriate to treat the claims settlement period as LfRC and derive revenue from this activity. However, for entities purchasing portfolios with as a means of acquiring renewal business, it may be more appropriate to reflect the claims settlement period as LfIC.

[7] E.g. There may be situations in which existing portfolios are accounted for using the PAA but acquired business (which is otherwise identical in nature) may be required to apply the general model (due to the longer coverage period based on claims settlement).

Assessment of proposed solution/change against criteria set by IASB	*Criteria (a)(ii)*: • The proposed amendment will result in consistent treatment of identical contracts regardless of whether the insurer issues or acquires the contract. • The amendment will allow insurers to apply the appropriate accounting treatment based on their judgment as to which interpretation provides the most useful information about the insurance service provided to the policyholder under the contract. *Criteria (a)(i) & (iii)*: The current IFRS 17 requirements create differences between the financial statements of entities that buy and sell contracts within the same Group, which are purely an accounting mismatch. If these financial statements are publicly available, this has the potential to confuse users. The proposed amendment will therefore, result in more relevant information and will be less complex for users. *Criteria (b)*: • The proposed amendment will result in significantly reduced implementation and ongoing cost and effort. *Other:* In the September 2018 TRG AP01 *Insurance risk consequent to an incurred claim*, IASB staff comment there are two possible approaches to analysing insurance risks that arise as a consequence of a claim. One approach involves treating those risks as further coverage and the other approach involves treating those risks as part of incurred claims. AP01 notes the factors that might lead to the choice of approach, including: relative complexity and comparability among products. Both these criteria would typically support treating contracts acquired in the settlement period as only giving rise to liabilities for incurred claims (not liabilities for remaining coverage). The flexibility of approach identified in AP01 is relevant to all contracts, issued or acquired. We consider that the proposed amendment does not affect core principles of the IFRS 17 liability measurement model.

Topic 12: Measurement | Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous

Australian response	We strongly recommend an amendment is made to IFRS 17 to extend the subsequent measurement requirement set out in IFRS 17.66(c)(ii) to initial recognition.
Justification for change	• The current IFRS 17 requirement does not reflect the economics of the reinsurance transaction as a risk mitigation tool. Contrary to IFRS 17.BC311, a net gain on reinsurance held is not always indicative of a 'discount' provided by the reinsurer. • The current requirement is inconsistent with the subsequent measurement requirement in IFRS 17.66(c)(ii) and the principles applied in other accounting standards to similar transactions. • The current requirement would lead to different accounting outcomes for similar relationships based on whether they are reinsurance contracts or financial instruments. • The prevalence of onerous underlying contracts with reinsurance coverage giving rise to net gains is greater than previously contemplated by the IASB due to the introduction of 'groups of contracts'[8].
Proposed solution	We believe an important principle of the treatment of reinsurance held should be that reinsurance gains should be recognised in P&L in the same period(s) in which the expected underlying losses are recognised in the P&L. This should apply where those underlying losses are recognised at initial recognition of the reinsurance contracts held, or subsequently. We have suggested a possible wording below, but also acknowledge that alternative wording may also achieve the same principle: 65 … Hence, on initial recognition: (a) the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of the fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless (b) the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense; **or unless** (c) **the fulfilment cash flows of the group of reinsurance contracts held relate to onerous underlying contracts recognised in profit or loss, in which case, the entity shall recognise a gain in profit or loss on initial recognition to the extent the gain relates to those onerous contract losses recognised in profit or loss on initial recognition of the group of reinsurance contracts held**.

[8] The introduction of 'groups of contracts' was a late addition in the Insurance Contracts project (January 2016) and only field tested by limited participants in September 2016.

	Gains on reinsurance held that relate to underlying insurance contracts not yet issued should be recognised as a CSM until the underlying onerous losses are recognised, at which point the gains are released from CSM to the extent of the underlying losses recognised in the P&L[9]: 66 … (e) the amount recognised in profit or loss ~~because of~~ **for**: **i) the reinsurance gains included in the contractual service margin that relate to losses on onerous underlying contracts that incepted in the current reporting period and were included in the measurement of the contractual service margin at initial recognition; and** ii) services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (**after allocation of the amounts described in paragraph 66(e)(i) but** before any **other** allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119[10]
Assessment of proposed solution against criteria set by IASB	The proposed amendment will result in a presentation that is **helpful to users** of financial statements as it will: • **faithfully represent the economic substance** of a reinsurance transaction as a risk mitigation tool [*Criteria (a)(i)*] • **increase understandability and comparability** by clearly differentiating between an insurer that has acquired economic protection for onerous underlying losses and an insurer that has not [*Criteria (a)(ii) & (iii)*]. • continue to treat reinsurance contracts held and underlying contracts as separate contracts and is **consistent with other aspects of IFRS 17** that acknowledge the interdependencies between the underlying contracts and reinsurance contracts held[11]. [*Criteria (a)(ii)*] • improve consistency of the treatment with other Standards (e.g. IFRS 9) and practices of other industries/sectors. We consider that the proposed amendment will not unduly disrupt implementation processes [*Criteria (b)*] as: • Information around losses on underlying contracts and changes in the measurement of reinsurance held that results from changes in the underlying contracts are already required under the existing IFRS 17 requirements. • The identification of components of the CSM which relate to onerous underlying contracts to be issued in each period (to identify amounts to be recognised in the P&L in each period) will be needed under the existing IFRS 17 requirements to determine the appropriate pattern of CSM release based on coverage units. The proposed amendment is narrow in scope as it is limited to paragraphs IFRS 17.65 and 66 around the measurement of reinsurance held and does not impact the measurement requirements applicable to issued contracts. Losses on underlying contracts will still be identified and presented in the financial statements in accordance with the existing IFRS 17 requirements.

Topic 13: Measurement | Reinsurance contracts held: ineligibility for the variable fee approach

Australian response	This issue is not expected to have a significant impact in Australia.

Topic 14: Measurement | Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued

Australian response	While we understand the IASB staff's recommendation not to change IFRS 17 to amend the contract boundary for reinsurance, it is important to note that the current interpretation has a significant consequence regarding the ability to faithfully represent the economics of reinsurance contracts which provide cover for underlying contracts not yet written or extend beyond the contract boundary of the underlying contracts.

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[9] This addresses concerns around financial manipulation as reinsurance 'gains' can only be recognised in the P&L to the extent the onerous underlying losses have already been recognised in P&L

[10] A pattern of coverage units based on the underwriting pattern of underlying contracts would result in no CSM being released in respect of underlying contracts not yet issued as no valid claims can be made in respect of those future underlying contracts before they are issued, i.e. the CSM on reinsurance held would be released as the underlying contracts are issued. Consequently, the allocation of CSM to P&L for the provision of services in each period in accordance with IFRS 17.B119 will not include those gains in the CSM which relate to losses on underlying contracts not yet issued. These gains will be released to P&L when those underlying losses are recognised as per the requirement proposed in IFRS 17.66(e)(i).

[11] IFRS 17.62(a), IFRS 17.63, IFRS 17.66(c)(ii)

Justification for change	We note that accounting timing mismatches will arise as a consequence of the February TRG staff clarification of reinsurance contract boundary because cash flows included within the boundaries of reinsurance contracts held will frequently be inconsistent with the cash flows included within the boundaries of underlying contracts [12]. This inconsistency in contract boundary has significant implications for subsequent measurement of the reinsurance contract resulting in mismatches when applying IFRS 17.66(c)(ii) to changes in expectations of fulfilment cash flows in respect of underlying contracts not yet issued[13]. Whilst practically, implementation issues arise due to the need to estimate cash flows for underlying contracts not yet issued (this is particularly challenging for proportional reinsurance contracts), more significant accounting timing mismatches arise from the requirement to include underlying cash flows beyond the underlying contract boundary in the measurement of the reinsurance contract. These mismatches will result in less useful information for users as this does not reflect the economics of the reinsurance arrangement. This issue is similar to that raised in Topic 12 but occurs on subsequent measurement as opposed to initial recognition.
Proposed solution	Consider restricting the application of IFRS 17.66(c)(ii) to changes in respect of underlying contracts already recognised, either through amendment or clarification of interpretation, for example, by amending IFRS 17.66(c)(ii) so that those changes in the reinsurance held covered by IFRS 17.66(c)(ii) are recognised in the P&L in line with the recognition of the underlying losses which give rise to them.
Assessment of proposed solution/change against criteria set by IASB	The accounting timing mismatches between the reinsurance cash flows relating to underlying business not yet written (or expected renewals beyond the underlying contract boundary) does not provide a faithful representation of the economic outcomes resulting from the reinsurance contracts held whereby the reinsurance cash flows are normally expected to mirror the cash flows of the underlying insurance contracts. We believe that our proposed amendment will provide better information to users. We do not expect the proposed amendment to unduly delay entities' implementation of IFRS 17 as we believe the proposed amendment would simplify requirements for preparers. As an alternative, we would also support an amendment to exclude cash flows in respect of underlying contracts not yet written from the measurement of the reinsurance contracts held.

Topic 15: Presentation in the statement of financial position | Separate presentation of groups of assets and groups of liabilities

Australian response	We would strongly support a change to address this concern.

[12] A common reason for the mismatch is due to renewals of underlying insurance contracts being treated as future contracts due to repricing rights; but these contracts (current coverage and future renewals) are commonly covered by a single longer term reinsurance treaty.

[13] For example, where underlying contracts not yet issued were expected to be profitable on initial recognition of the reinsurance contract held, but subsequent changes in expectations that arise after initial recognition of the reinsurance contract but before initial recognition of the underlying contracts result in those underlying contracts being expected to be onerous. Applying IFRS 17.66(c)(ii) as currently worded, it would seem that the corresponding change in the reinsurance held will need to be recognised in the P&L prior to the recognition of onerous losses on those underlying contracts not yet issued.

Justification for change	Disaggregation by group for presentation purposes[14] **does not provide information that is meaningful** to users of financial statements because: • The components of the insurance contract asset/liability (unearned premiums, claims liabilities, receivables/payables) are the critical measures for both internal and external users and for internal management purposes. The 'group of insurance contracts' as a unit of measurement is not considered relevant except for identification and measurement of onerous contracts. • Whether a 'group' is in an asset or liability position is inconsistent over time and is largely driven by the timing of premium receipts. A group shown as an asset at an interim reporting date could be a liability at year end for no reason other than timing of premium receipts. • Both insurance contracts assets and liabilities derived under IFRS 17 are of the same nature and therefore, should not be presented separately on the statement of financial position (SFP). The timing of premium receipts does not change the underlying nature or function of the obligation under the insurance contract[15]. • Insurance balances are often calculated at a higher level than a 'group'. The 'group' is not reflective of the level at which business is managed. • Allocations of measurement amounts to 'groups' will be based on judgement and are likely to differ significantly between insurance companies, driving inconsistency and reduced comparability between entities. The requirements will result in **significant implementation cost for no identifiable benefit:** • The components of the insurance asset/liability (unearned premiums, claims liabilities, receivables/payables) are commonly managed separately and administered in different systems. The determination of whether each 'group' is an asset or liability involves the disaggregation of insurance components and re-aggregation by 'group' for presentation purposes only. • Inconsistency of 'groups' over time creates difficulties when developing an automated solution as mapping rules will require rework at the end of each period. • Allocation of insurance balances to groups will add complexity to the reporting process and reduce efficiency of the close process. • Identifying premiums received by 'group' is a major challenge as cash management systems generally do not apply aggregation at the level of the 'group'[16]. • The identification of data by underwriting year cohorts will involve significant effort as actuarial reserving (outside of the Lloyd's of London market) has historically been done on an accident year basis for general insurance. Given the continuing demand for information about general insurers' performance based on incidents that occurred during the period, there will be a continuing need to also prepare accident year information (e.g. for regulatory purposes).
Proposed solution	Although we consider that the entity level is the appropriate unit of account for presentation in the SFP, should the IASB not support this approach, we are supportive of an amendment to allow aggregation at a 'portfolio' level for presentation in the SFP.
Assessment of proposed solution/change against criteria set by IASB	IFRS 17 currently includes the offsetting of rights and obligations arising from individual insurance contracts [*Criteria (a)(ii)*] – IFRS 17 requires the measurement of insurance contracts at the level of the 'group', which means that **cash inflows and outflows of individual contracts within the 'group' are offset**, in order to reflect the risk pooling nature of insurance activities which the IASB considered to be 'useful information'[17]. Presentation at a higher level of aggregation (entity or portfolio) would not result in loss of useful information in the financial statements, but will in fact, result in **more meaningful** information [*Criteria (a)(i) & (iii)*] because: • it will reflect the set of rights and obligations under insurance contracts at the level at which the business is managed[18]. • it will result in improved comparability with other local accounting standards (e.g. US GAAP) which are based on entity as the unit of measurement. [19]

[14] The "group of insurance contracts" as a unit of measurement was originally developed for identification and measurement of onerous contracts. Whilst we consider this a valid approach for the identification and measurement of onerous contracts, we do not believe that this approach needs to be extended to the presentation in the statement of financial position.

[15] IAS 1 requires items to be presented separately if they are of a dissimilar nature or function [IAS 1.29].

[16] E.g. contracts may be aggregated by broker or agent and the cash is applied at this level.

[17] IFRS 17.BC118: [*emphasis added*] "…the Board considered whether contracts should be measured individually despite the **resulting lack of offsetting**. Doing so would be **consistent with the general requirements in IFRS 9 and IFRS 15** and would reflect the fact that the entity's rights and obligations arise from individual contracts with policyholders. Measuring contracts individually would also provide a clear measurement objective. However, the Board decided that **such an approach would not provide useful information about insurance activities**, which often rely on an entity issuing a number of similar contracts to reduce risk. The Board concluded, therefore, that the contractual service margin should be measured at a group level."

[18] A portfolio comprises contracts subject to similar risks and **managed together** [IFRS 17.14].

[19] We also note consistency with IFRS 15 whereby although IFRS 15 specifies the individual contract with a customer as the unit of measurement, it allows the application of IFRS 15 to a "portfolio of contracts" [IFRS 15.4] if the entity reasonably expects that the effects on the financial statements of applying the Standard at a portfolio level would not differ materially from applying the Standard to the individual contracts.

	• the identification and measurement of onerous contracts will continue to be performed at the level of the 'group' which means that onerous contracts in one group will not be offset with profitable contracts in another, and therefore, information on onerous contracts will continue to be reported on a timely basis. The proposed amendment will significantly reduce implementation costs [*Criteria (b)*] – see 'Justification for change' section above for a summary of implementation challenges. We consider the proposed amendment to be narrow in scope as it is limited to the presentation requirements in paragraph IFRS 17.78 and does not impact the requirements around the identification and measurement of onerous contracts.

Topic 16: Presentation in the statement of financial position | Premiums receivable

Australian response	We consider that the implementation challenges arising from this issue will be mitigated if the concerns in Topic 15 are addressed.

Topic 17: Presentation in the statement of financial position | OCI option for insurance finance income or expenses

Australian response	We strongly support the IASB staff's view that no change should be made to remove either the OCI or P&L option for insurance finance income/expenses.
Justification for no change	We agree with the IASB staff's view that the removal of either option would unduly disrupt implementation processes for many entities who will need to revisit work done and decisions made (e.g. impact assessments, system/process design and build) based on their current intention to apply either the P&L or the OCI option. We also consider that the concern raised around the lack of comparability is mitigated by the disclosure requirement in IFRS 17.118 which will provide useful information to users about the amounts recognised in P&L and OCI.

Topic 18: Defined terms | Insurance contract with direct participation features

Australian response	This issue is not expected to have a significant impact in Australia.

Topic 19: Interim financial statements | Treatment of accounting estimates

Australian response	We support the staff view that IFRS 17 should not extend the override of IAS 34 to types of reporting that are not 'general purpose' (as identified in the *Conceptual Framework for Financial Reporting*). However, when this subject was debated at the September 2018 IASB TRG, it became apparent that the IFRS 17 override of IAS 34 would require the lock down of all assumptions as at the last reporting date, including interim reporting – the extent of the lock down had not been fully appreciated prior to this. This would require the lock down of assumptions at each quarter, half year or year depending on the frequency of individual entity reporting and could create differences between parent entities and subsidiaries. We therefore, consider that the IAS 34 override in IFRS 17 should be permitted but not required.
Justification	In our view, extending the IFRS 17 override of IAS 34 to types of reporting that are not 'general purpose' (as identified in the *Conceptual Framework for Financial Reporting*) is not a relevant consideration [*Criteria (a)(i)*] because: (a) Those other types of financial statements would not be within the IASB's usual scope of operations. (b) IAS 34 applies when an entity elects to publish an interim financial report in accordance with IFRS, and entities could choose to apply the IFRS 17 requirement and override IAS 34 for other types of interim reports and simply identify them as not being IFRS-compliant. We consider that the IAS 34 override in IFRS 17 should be amended so that its application is permitted but not required because IFRS 17 introduces the concept of an annual cohort in defining the 'group' as the unit of account. It will not be practically possible to apply this annual cohort

	principle for entities who report on a quarterly or half yearly (or more frequent) basis, reflecting internal inconsistencies within IFRS 17.
Proposed solution	Do not extend the IAS 34 override to types of reporting that are not 'general purpose' (as identified in the *Conceptual Framework for Financial Reporting*). Amend the existing IAS 34 override in IFRS 17 so that its application is permitted but not required.
Assessment of proposed solution/change against criteria set by IASB	We think that it is more relevant [*Criteria (a)(i)*] for principles in IAS 34 to be permitted, but not required, by IFRS 17 for the following reasons: • It will allow a faithful representation [a key *Framework* qualitative characteristic] of transactions and other events when the frequency of general-purpose reporting impacts on recognition and measurement since mandated reporting frequency differs from jurisdiction to jurisdiction. • It will facilitate increased comparability [*Criteria (a)(ii)*] between market peers in a jurisdiction that have different interim reporting requirements for different types of entities[20]. • It will allow consistency [*Criteria (a)(ii)*] between the application of external reporting requirements and the concept of annual cohorts in IFRS 17. Our proposed amendment would not unduly disrupt implementation processes [*Criteria (b)*] but will instead significantly reduce implementation cost and effort for some entities.

Topic 20: Effective date | Date of initial application of IFRS 17

N/A – tentative decision made in the November Board meeting to defer the effective date by one year.

Topic 21: Effective date | Comparative information

Australian response	We agree with the IASB staff's view that no change should be made to permit entities not to present adjusted comparative information when first applying IFRS 17.
Justification for no change	Such an amendment would increase complexity for users of financial statements as the financial position and profits reported by entities in the comparative period presented would not be comparable to the amounts reported in the current reporting period.

Topic 22: Effective date | Temporary exemption from applying IFRS 9

N/A – tentative decision made in the November Board meeting to extend the temporary exemption by one year.

Topic 23: Transition | Optionality

Australian response	We agree with the IASB staff's view that no change should be made to mandate a single alternative to the full retrospective approach where it is impracticable to apply the IFRS 17 requirements retrospectively.
Justification for no change	Removing the optionality around the alternative transition approaches will result in significant implementation costs and would unduly disrupt implementation processes for many entities who will need to revisit work done and decisions made (e.g. impact assessments, system/process design and build) based on the intention to apply one of the alternative transition approaches to groups of contracts where it is impracticable to apply the full retrospective approach.

Topic 24: Transition | Modified retrospective approach: further modifications

Australian response	We would support an amendment to introduce additional modifications to the modified retrospective approach to allow the approach to be practicable to apply. We expect areas where further modifications would be helpful to emerge as implementation projects progress.
Justification for change	The introduction of additional modifications could simplify the initial application of IFRS 17 for many entities.

[20] For example, in some jurisdictions, listed insurers compete with mutual insurers and government insurers, yet the listed insurer might have quarterly or half-yearly reporting obligations while the mutual and government insurers have only annual reporting obligations.

Assessment of proposed change against criteria set by IASB	We agree with the IASB staff's assessment that the introduction of additional modifications in the modified retrospective approach could meet the criteria set in IASB October 2018 Board Agenda Paper 2C. We also note that the impact of introducing additional modifications is likely to be limited by the requirement in IFRS 17.C8 which permits an entity to use each modification only to the extent that the entity does not have reasonable and supportable information to apply the full retrospective approach.

Topic 25: Transition | Fair value approach: OCI on related financial assets

Australian response	This is not considered to be an issue in Australia. We agree with the IASB staff's view that no change should be made.